CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO:	City Council/ Redevelopment Agency Board	**FROM:**	Mayor Ron Gonzales
SUBJECT:	2003-2004 Mid Year Budget Actions	**DATE:**	February 12, 2004

Approved

INTRODUCTION

Preliminary forecasts indicate that the San José General Fund (which supports essential Public services including police, fire, parks and libraries) may face a $76 million shortfall next year due to the prolonged Silicon Valley recession. Our Redevelopment Agency has also experienced a decline in revenue projections in the current fiscal year. The state budget proposed by Governor Schwarzenegger could increase the City's projected deficit next year and drastically change the Redevelopment Agency's fiscal outlook, impacting affordable housing programs, the Strong Neighborhood Initiative and other programs to support neighborhoods, San José businesses and our local economy.

During the special budget study session held in January, the Council heard from both the City Manager (Manager) and the Acting Redevelopment Agency Executive Director (Director) about San José's current General Fund budget deficit and projections for FY 2004 2005 as well as review the Redevelopment Agency Capital Improvement Plan with a focus on generating policy input on spending priorities.

I have stated numerous times that Public Safety must be the highest priority for the General Fund in good times and in bad. We must do everything we can to balance our budget while reducing service impacts to our residents. Our focus must be in non public safety reductions, however, there may be opportunities for service delivery efficiencies in our public safety departments that should be implemented.

We must also insure that our Redevelopment Agency is able to continue to provide resources to develop affordable housing, strong neighborhoods and job creation opportunities. While we must fight to stop the State from taking Redevelopment Agency resources away from these programs, we must also insure that we focus our expenditures on projects that help generate new tax increment growth.

Based upon City Council input, this message outlines a budget strategy to make decisions now, not later, to close the projected deficit. The recommendations below provide specific direction to protect vital community services while closing the projected deficits cause by the continuing recession and the impacts associated with the state budget actions proposed by the Governor.

RECOMMENDATION

Approve the 2003-2004 Mid Year Budget report with the following budget direction:

1) Direct the Manager to provide a list for approval within two weeks of 100 vacant non-public safety positions in the General Fund to be deleted immediately to help save funds now while limiting service level impact.
2) Direct the Manager to bring forward proposals that seem certain to be recommended for consideration later this year for implementation now, rather than waiting for July 1. The Director has already taken actions for significant current year reductions to the operating budget of the Redevelopment Agency.
3) In development of our FY 04/05 budget utilize 100% of our economic uncertainty reserve to erase a portion of the deficit if employee bargaining units agree by April 1, 2004 to 0% salary and benefit increases for one year.
4) Explore opportunities to accelerate the transfer of employees from General Fund to Special Fund positions, where it is likely to be a proposal to be included in the Proposed Budget.
5) Proceed with our current capital improvement plan to keep money flowing to economy but return with a plan to defer actual operational openings of facilities or a plan to close existing facilities in exchange for opening new better located facilities.
6) Direct the Manager to seek an agreement with our bargaining units for a mandatory unpaid furlough program.
7) Direct the Manager to explore to the fullest extent possible utilization of the Workers Comp reserve to fund employee training that could increase employee safety.
8) While we must be very selective with any discussion of fee increases, we must explore our opportunities at this time due to potentially lengthy delays of implementation. Direct the Manager to proceed with the exploration of a new 911 fee while working with the number of surrounding jurisdictions, including the County, that are also moving in this direction, to see if it would be possible to implement such a fee, on a regionally compatible basis.
9) Direct the Manager to immediately revise the current year TOT distributions based upon actual revenue receipts rather than the previous revenue projections.
10) Direct the Manager to explore employee Health Care options that save us money. Currently the City has a health care package that includes no or extremely low co-pay requirements. We must do everything we can to control the escalating costs of benefits.

11) Return with a plan to manage overtime issues in Public Safety that may be exacerbated by staffing reductions.
12) Approve all reductions in the Mayor and City Council office budgets in conjunction with the Manager's Mid-year Budget Report to reduce these budgets by the same average percentage that are being implemented in non public safety departments.
13) Direct the Manager to continue to work closely with the County and other jurisdictions to provide services for our residents and businesses. For example, we could work with Central Fire District and other adjoining jurisdictions to identify potential station closures or openings that each entity could implement utilizing each other's resources for more efficient coverage of our residents and businesses.
14) Direct the Manger to relook at our fee and fine structures to implement revisions that would: charge non residents a premium for any services and make sure any "abusers" in programs such as abandoned vehicles get charged fees which would dissuade undesirable activities.
15) Develop a timeline for the Redevelopment Agency Capital Budget, which would delay a proposed CIP from being submitted to the Agency Board until after the County Assessor has provided information on assessment rolls.
16) Direct the Director to submit a one-year Redevelopment Agency Operating Budget (and related expenditures for city services) by May 1st to be discussed in conjunction with the City's budget process.
17) Direct the Director to develop the proposed capital budget to increase the focus on tax increment generating investments, ensuring that San José generates additional tax increment dollars to continue programs to support neighborhoods affordable housing and economic development. While difficult to implement immediately, we should have a goal of at least 50% of our expenditures being into efforts that directly generate tax increment growth. We must be strategic with our investments to insure that there will be future tax increment growth to continue our affordable housing, strong neighborhood and job creation programs.

BACKGROUND

The goal of the direction outlined above for the General Fund is to act now, to realize savings today and not wait until May to make decisions that have the potential to lessen the impact on our core city services. We must continue to be conservative with our budget projections and ensure that we are responding immediately to the potential for additional reductions as a result of decisions made at the State level.

This is the second year in a row recent history where the City actually is collecting less revenue than the previous year. Prior "recessions" (even those in the early and mid 1990's) were reduction in growth of revenues not actual reduction in revenue collection.

The personnel increases we face are not even driven by projected salary increases.

These increases include $22 million in increased retirement (mainly lower performance than expected and higher salary increases than anticipated) costs. And the Police and Fire Retirement Board's actuary is predicting another $25 million increase in costs in 2006-2007. This is coupled with a $10 million in increases in benefit costs (mainly health care) next year.

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It is also imperative to restructure our budget process for the Redevelopment Agency to correspond with the timing of information related to our tax increment revenue. This will necessitate delaying our discussion of capital expenditures for a few months, but will allow us to have much more certainty when setting forward our capital improvement plan.